

**FISMA**

**CALIFORNIA STATE UNIVERSITY,  
EAST BAY**

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September 20, 2006**

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## **ABBREVIATIONS**

CSU	California State University
CSUEB	California State University, East Bay
EO	Executive Order
FISMA	Financial Integrity and State Manager's Accountability Act
SAM	State Administrative Manual
SCO	State Controller's Office
SHS	Student Health Services
SUAM	State University Administrative Manual

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## EXECUTIVE SUMMARY

The California Legislature passed the Financial Integrity and State Manager's Accountability Act (FISMA) of 1983. This act requires state agencies to establish and maintain a system of internal accounting and administrative control. To ensure that the requirements of this act are fully complied with, state entities with internal audit units are to complete biennial internal control audits (covering accounting and fiscal compliance practices) in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Institute of Internal Auditors) as required by Government Code, Section 1236. The Office of the University Auditor of the California State University (CSU) is currently responsible for conducting such audits within the CSU.

California State University, East Bay (CSUEB) management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13402 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Assets are safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- ▶ Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.

We visited the CSUEB campus from April 10, 2006, through June 9, 2006, and made a study and evaluation of the accounting and administrative control in effect as of June 9, 2006. This report represents our biennial review.

Our study and evaluation revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: cash receipts, accounts receivable, cash disbursements, fixed assets, and fiscal information technology. These conditions, along with other weaknesses, are described in the executive summary and body of this report.

In our opinion, due to the effect of the weaknesses described above, CSUEB's accounting and administrative control in effect as of June 9, 2006, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments,

unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

### **CASH RECEIPTS [6]**

Cash control weaknesses were found at university cash services and two satellite cashiering areas visited, which included student health services and the university police department parking and traffic unit. Reconciliations of parking permit inventory and parking decal dispenser sales to cash receipts were not adequate, the campus was unable to provide cash receipt totals for some satellite cashiering locations, checks were not always endorsed on the day of receipt, and cash and checks were not always adequately safeguarded. In addition, the campus was unable to provide evidence that application and state university fee reconciliations were prepared since the prior FISMA audit. Further, administration of uncleared collections was inadequate, which was a repeat finding from the prior FISMA audit.

### **ACCOUNTS RECEIVABLE [10]**

Billings for services rendered were not always timely invoiced, which is a repeat finding from the prior FISMA audit. A review of 20 invoices issued between November 2005 and January 2006 disclosed that four invoices were prepared from 135 to 500 days after the services were provided. In addition, pursuit of delinquent third-party and student accounts receivable and write-off of long-outstanding receivables needed improvement. For example, the campus was unable to provide documented evidence of collection activity for each of 16 third-party receivables and eight student receivables reviewed, and inconsistencies or a lack of sufficient data were noted with regard to aging reports. Further, although the campus had not written-off any outstanding receivables over \$1,000 since the prior FISMA audit, at least one instance was noted where \$4,900 had been outstanding since 1999, but not written-off, and the campus was unable to provide documentation to evidence the write-off of any long-outstanding receivables less than \$1,000 during the audit review period. Lastly, although the campus was able to provide evidence that accounts receivable subsidiary records were reconciled to the general ledger, the reconciliations were neither formalized nor signed and dated by the preparer and the reviewer.

### **PURCHASING [16]**

Open purchase orders were not always timely investigated and resolved. A review of the expediting report by buyer as of March 2006 showed eight open purchase orders dated between December 18, 2003, and June 30, 2005. The campus was unable to provide evidence of follow-up for four of the purchase orders totaling \$18,798, while two purchase orders had negative balances due to payments being erroneously entered twice. These errors had not been detected prior to this review.

## **CASH DISBURSEMENTS [17]**

Bank reconciliations were not always timely prepared and complete. In addition, long-outstanding checks were not processed in a timely manner.

## **FIXED ASSETS [19]**

Administration of fixed assets did not ensure that property was properly accounted for, identified, and recorded. For example, although the campus was currently conducting a campuswide physical inventory, a count of all property had not been performed in the past five years; the most recent property reconciliation was for June 2005; and capitalized property and sensitive equipment were not always timely tagged and recorded.

## **FISCAL INFORMATION TECHNOLOGY [21]**

Network security scanning and monitoring tools were not used, and the campus did not have a centralized mechanism to ensure desktop software patch management or virus updates. The existing employee termination and transfer process did not provide assurance of timely removal of system access by security administrators. The campus disaster recovery plan had not been updated to reflect campus dependence on its centralized authentication and data warehouse systems. Further, access roles and privileges to the PeopleSoft Financial system were not effectively assigned to prevent unauthorized access and data modification.

## **INVESTMENTS [24]**

Investment reconciliations were not timely prepared and complete. A review of reconciliations in May 2006 showed that the most recent reconciliation of investment records to the general ledger was for January 2006. In addition, the reconciliation lacked an approval date.

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## INTRODUCTION

### **PURPOSE**

The principal audit objective was to assess the adequacy of controls and systems to ensure that:

- ▶ Cash receipts are processed in accordance with laws, regulations, and management policies.
- ▶ Receivables are promptly recognized and balances are periodically evaluated.
- ▶ Purchases are made in accordance with laws, regulations, and management policies.
- ▶ Revolving fund disbursements are authorized and processed in accordance with laws, regulations, and management policies.
- ▶ Cash disbursements are properly authorized and made in accordance with established procedures, and adequate segregation of duties exists.
- ▶ Payroll/personnel criteria for hiring employees, establishing compensation rates, and authorizing disbursements are controlled and access to personnel and payroll records and processing areas are restricted.
- ▶ Purchase and disposition of fixed assets are controlled and assets are promptly recorded in the subsidiary records.
- ▶ Fiscal information systems are adequately controlled and safeguarded, and adequate segregation of duties exists.
- ▶ Investments are adequately controlled and securities are safeguarded.
- ▶ Trust funds are established in accordance with State University Administrative Manual guidelines.

### **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal year 2004/05 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 2005 to March 2006. Our primary focus was on internal controls. Specifically, we reviewed and tested:

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INTRODUCTION

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to State Controller's balances.
- ▶ Limitations on the size and types of revolving fund disbursements.
- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions and accumulation of leave credits in compliance with state policies.
- ▶ Posting of the property ledger, monthly reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to accounting systems and related computer facilities/equipment, and administration of information technology operations.
- ▶ Procedures for initiating, evaluating, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

We have not performed any auditing procedures beyond June 9, 2006. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH RECEIPTS**

#### **MAIN AND SATELLITE CASHIERING**

Cash control weaknesses were found at university cash services and two satellite cashiering areas visited.

The satellite cashiering locations reviewed included student health services (SHS) and the university police department parking and traffic unit.

#### **Parking Receipts**

Reconciliations of parking permit inventory and parking decal dispenser sales to cash receipts were not adequate.

Our review of the reconciliation of parking permit inventory in May 2006 disclosed that:

- ▶ The most recent reconciliation of student parking permits purchased through the main cashier for the winter 2006 term, which began on January 3rd, was not prepared until May 3, 2006, and was not signed by the reviewer.
- ▶ There was no reconciliation for the sale of employee parking permits.
- ▶ Although the receipt showing total sales generated through the parking decal dispensers indicated the cash collected, the amount was not reconciled to the number of units sold from the dispenser or by decal numbers.
- ▶ Although, the totals for cash collected and sales should match the reports generated by the parking decal dispensers, there was no research done in instances where the totals did not agree.

State Administrative Manual (SAM) §7901 states that the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications and requires monthly preparation of all reconciliations within 30 days of the preceding month.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

SAM §7908 states all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

The general accounting manager stated her belief that parking permit reconciliations were not current due to turnover and shortage of available staff. She further stated that machines that dispense daily parking permits did not capture discrepancies in cash collected and permits sold because the dispensers did not recognize all bills (i.e., the \$2 bill registered as \$1).

### **Collections from Satellite Cashiering**

The campus was unable to provide cash receipt totals from July 2004 to March 2006 for the Concord campus, division of continuing and international education, facilities reservations, and the music department.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls, shall include, but are not limited to a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.

The general accounting manager stated her belief that the responsible parties were unable to access reports for the sites in question due to the volume and difficulty in accessing the most recent cash receipt information.

### **Safety of Funds**

Checks were not always endorsed on the day of receipt, and cash and checks were not always adequately safeguarded prior to deposit.

We found that checks collected for health care services provided by SHS medical field personnel at the Concord satellite campus were not endorsed on the day of receipt and cash was not secured in a lockable container. Instead, the checks were endorsed the next day when the health care provider returned to the Hayward campus.

SAM §8034.1 and §8023 require checks and other negotiable instruments to be endorsed on the day they are received.

SAM §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

The vice president of administration and business affairs stated his belief that endorsement stamps had not been issued to field medical staff because the frequency and amount of cash and checks received in the field was insignificant.

Inadequate control over cash receipts increases campus exposure to loss from inappropriate acts.

### **Recommendation 1**

We recommend that the campus:

- a. Prepare documented and timely reconciliations of student and employee parking permits issued to revenue recorded in the general ledger, including verification of decals issued and decals returned.
- b. Analyze the variances between cash collected from parking decal dispensers and the amounts shown on transcripts generated from the dispensers and determine whether the cost/benefit of correcting any variances.
- c. Develop reporting capabilities to generate cash receipt totals from all satellite locations and monitor their financial position.
- d. Ensure that all checks received by SHS medical field personnel are restrictively endorsed on the day of receipt.
- e. Ensure that all currency and checks received by SHS medical field personnel are adequately safeguarded in a secured storage facility upon receipt from customers and prior to deposit.

### **Campus Response**

We concur. The campus will:

- a. Prepare documented reconciliations of its employees and students parking permits issued to revenue recorded in the general ledger, including verification of decals issued and decal returned, on a monthly basis. We are now current in this process.
- b. Develop reconciliation and work with university police department staff to monitor and resolve variances. We are currently working to further define our process and anticipate completion by December 2006.
- c. Enhance their reporting capabilities to generate cash receipt totals from all satellite locations and monitor their financial positions. We anticipate completion by December 2006.
- d. Provide SHS medical field personnel the appropriate endorsement stamp and will reiterate to staff that all check endorsement must be on the day of receipt. We anticipate completion by November 2006.
- e. Reiterate to staff at SHS facilities the policy to adequately safeguard all currency and checks received in a secured storage facility upon receipt from customers and prior to deposit. We anticipate completion by November 2006.

## **FEE RECONCILIATIONS**

The campus could not provide evidence that application and state university fee reconciliations had been prepared since the prior Financial Integrity and State Manager's Accountability Act (FISMA) audit.

State University Administrative Manual (SUAM) §3825.01 states that a reconciliation of applications for admission to fees received shall be prepared for each academic year term and maintained on file by each campus. The reconciliations should be completed one month after the end of the academic term being reconciled.

SUAM §3825.02 states that a reconciliation of state university fees to census date report relative to the number of students accounted on the census date shall be prepared for each academic term.

The associate vice president of business and financial services stated her belief that the person who was responsible for preparing the reconciliations had been behind prior to taking extended medical leave. She further stated that there had been challenges with reassigning the function.

Failure to reconcile fees increases the risk that errors and irregularities will not be detected.

### **Recommendation 2**

We recommend that the campus promptly complete application and state university fee reconciliations and establish procedures to ensure that future reconciliations are timely prepared.

### **Campus Response**

We concur. The campus has completed the application and state university fee reconciliations and established procedures to ensure that future reconciliations are timely prepared.

## **UNCLEARED COLLECTIONS**

Administration of uncleared collections was inadequate. This is a repeat finding from the prior FISMA audit.

We found that the most recent reconciliation of uncleared collections was for June 2005. At that time, the balance of uncleared collections totaled \$41,705 and included entries dated between 1996 and 2004. In addition, the reconciliation had neither been formalized nor signed and dated by the preparer and reviewer, and there was no evidence that items posted to the account were being actively pursued for resolution.

SAM §7800 states that the following sections describe generally the more commonly maintained ledgers, files, and registers that are subsidiary to general ledger accounts. The form and content of these records may vary among agencies except as specifically described in other chapters. These records will be reconciled to the general ledger monthly and include an uncleared collection file.

SAM §7901 states that all reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

SAM §10508 states, in part, that varying circumstances determine the clearance of uncleared collections, and that items should be cleared at least once each quarter.

The associate vice president of business and financial services stated her belief that tasks were not completed timely during the absence of key staff due to lack of resources and failure to delegate the function in a timely manner.

Inadequate control over uncleared collections limits the campus' ability to detect errors and irregularities and may delay proper revenue recognition.

### **Recommendation 3**

We recommend that the campus prepare formalized reconciliations of uncleared collections on a monthly basis that are signed and dated by the preparer and a reviewer and strengthen procedures to timely investigate and resolve uncleared collection items.

### **Campus Response**

We concur. The campus is modifying reports in order to perform and review reconciliations of uncleared collections on a monthly basis. Reconciliations will include analysis and resolutions to uncleared collection items and will have the signature and date of the preparer and reviewer. We anticipate completion by January 2007.

## **ACCOUNTS RECEIVABLE**

### **BILLINGS FOR SERVICE**

Billings for services rendered were not always timely invoiced. This is a repeat finding from the prior FISMA audit.

Our review of 20 invoices issued between November 2005 and January 2006 disclosed that four invoices were prepared from 135 to 500 days after the services were provided.

SAM §8776.3 requires invoices to be prepared as soon as possible after recognition of a claim.

SAM §20050 indicates that the elements of a satisfactory system of internal accounting and administrative controls include a system of recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The general accounting manager stated that the billings were not processed in a timely manner due to either a delay by departments in submission of supporting documentation or a system issue, which the campus experienced from approximately November 2005 through January 2006 that prevented billing.

Failure to timely invoice outstanding obligations due to the General Fund from other sources reduces working capital and the likelihood of collecting funds.

#### **Recommendation 4**

We recommend that the campus strengthen procedures to ensure that billings for services rendered are timely received from service departments and timely invoiced to users.

#### **Campus Response**

We concur. The campus has resolved all issues resulting from the implementation of the accounts receivable/billings module of PeopleSoft, which was the cause of this finding. We are now current with entering bills, and invoicing is up to date.

### **COLLECTIONS**

Pursuit of delinquent third-party and student accounts receivable needed improvement.

#### **Third-Party**

Our review of 16 third-party receivables outstanding as of March 2006 disclosed that:

- ▶ In the extended absence of the person responsible for handling collections, the campus was unable to provide documented evidence that letters of progressively stronger tone were sent in 30-day intervals or that other collection activities took place for each of the 16 receivables reviewed.
- ▶ The March 2006 accounts receivable aging report included a receivable from the California State University, East Bay (CSUEB) Foundation totaling \$10,228 even though the June 2005 supplemental report of paid invoices showed that it had been paid in June 2005. The campus was unable to provide the actual invoice and supporting collection documentation.

- ▶ The balance reflected on the March 2006 accounts receivable aging report did not agree with the corresponding balances reflected on supporting documentation in one instance. Specifically, invoice No. 57819 dated December 29, 2005, totaling \$9,492 was currently reflected on the accounts receivable aging at \$6,082. The campus was unable to provide supporting documentation for payments or other adjustments. The difference between the two amounts was \$3,410.

### **Student Receivables**

Our review of eight student receivables outstanding as of March 2006 disclosed that:

- ▶ In the extended absence of the person responsible for handling collections, the campus was unable to provide documented evidence that collection letters were sent or that any other compensating collection activities were performed for each of the eight receivables reviewed.
- ▶ The aged accounts receivable report for student accounts did not provide the age of student receivable balances, other than identifying the balances as 0-30 days, 31-60 days, 61-90 days, and 91+ days old. As a result, we were unable to determine the exact age and number of student receivables older than 90 days old. This is a repeat finding from the prior FISMA audit.
- ▶ Holds were not placed on two of the eight delinquent student accounts.

SUAM §3822 requires each campus to establish procedures that provide for prompt follow-up of accounts receivable, including preparation and issuance of follow-up letters and/or calls, and utilization of the offset claim procedures for accounts greater than \$10.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including a sequence of three collection letters at 30-day intervals with a progressively stronger tone and specific requirements for filing applications for Discharge From Accountability (form STD. 27) with the State Controller's Office (SCO).

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; an established system of practices to be followed in performance of duties and functions; and an effective system of internal review.

The CSUEB *Accounts Receivable Collection Procedures* state, in part, that for students and third parties, quarterly statements are mailed, university services are withheld, receivables are sent to the franchise tax board for tax offset collection, and those receivables with amounts due after tax offset are reviewed for collection agency/write-off.

The associate vice president of business and financial services stated her belief that tasks were not completed timely during the absence of key staff due to lack of resources and failure to delegate the function in a timely manner.

Inadequate control over delinquent accounts receivable reduces the likelihood of collection, increases the amount of resources expended on collection efforts, negatively impacts cash flow, and increases the risk that receivables will not be properly reflected in the campus financial statements.

### **Recommendation 5**

We recommend that the campus:

- a. Strengthen procedures to ensure that documented collection efforts are promptly pursued for third-party and student accounts receivables, and holds are placed on all delinquent student accounts.
- b. Consider restructuring the collection process to provide better oversight and include other staff to avoid instances whereby collection documentation or information is held solely by one person.
- c. Analyze all third-party receivable balances to determine their validity and establish and implement controls to ensure that invoices, payments, and adjustments are properly processed and recorded.
- d. Explore the feasibility of reformatting the student receivables aging report to provide better aging data for receivables greater than 90 days old.
- e. Document and implement management oversight and verification of various portions of the collection process.

### **Campus Response**

We concur. The campus will:

- a. Develop procedures for the account receivable staff member to document collection efforts for third-party vendors in PeopleSoft. The university controller will establish procedures for collection on student accounts receivables that include placing holds on delinquent student accounts. We anticipate completion by December 2006.
- b. Restructure the collection process to provide better oversight and include other staff to avoid instances whereby solely one person holds collection documentation and information. We anticipate completion by December 2006.
- c. Analyze all third-party receivable balances to determine their validity. We will establish and implement controls to ensure that invoices, payments, and adjustments are properly processed and recorded and anticipate completion by December 2006.
- d. Modify current student receivables aging report to provide better aging data for receivables greater than 90 days old. Programming efforts have already begun, and we anticipate completion by December 2006.

- e. Document a process that includes using a collection agency for management oversight and verification of various portions of the collection process. The acting accounts receivable manager will implement the process and is anticipating completion by December 2006.

## WRITE-OFFS

Write-off of long-outstanding accounts receivable needed improvement.

We found that:

- ▶ Although the campus had not written-off any long-outstanding receivables over \$1,000 since the prior FISMA audit, we noted at least one instance during our review of 11 student accounts receivable where one account totaling \$4,900 had been outstanding since 1999, but had not been written-off.
- ▶ The campus was unable to provide documentation to evidence the write-off of any long-outstanding receivables less than \$1,000 during the audit review period.
- ▶ Campus procedures did not specifically address the review and approval of long-outstanding accounts for write-off, including guidelines and time frames to be considered when making write-off recommendations.

Executive Order (EO) 616, *Discharge of Accountability*, dated April 19, 1994, states that campuses will be obligated to comply with the collection efforts as outlined in SAM §8776.6, which includes collection procedures that assure prompt follow-up on receivables. Authority is also delegated to the campus for local adjustments of up to \$1,000 that are determined to be uncollectible or where the amount does not justify the collection costs.

SAM §8776.6 provides procedures and guidelines regarding adequate collection efforts and follow-up on receivables, including a sequence of three collection letters at 30-day intervals with a progressively stronger tone and specific requirements for filing applications for Discharge From Accountability (form STD. 27) with the SCO.

The CSUEB *Accounts Receivable Collection Procedures* state, in part, that for students and third parties, quarterly statements are mailed, university services are withheld, receivables are sent to the franchise tax board for tax offset collection and those receivables with amounts due after tax offset are reviewed for collection agency/write-off.

The associate vice president of business and financial services stated her belief that the back log for not writing off long-outstanding accounts receivable was due to conflicting responsibilities as well as minimal resources in the area.

Failure to write-off long-outstanding accounts receivables increases the risk of misstatement of financial position.

### **Recommendation 6**

We recommend that the campus establish procedures to periodically review long-outstanding accounts receivable for write-off, including specific guidelines, approvals, and time frames and ensure that all accounts receivable deemed uncollectible are written-off in a timely manner.

### **Campus Response**

We concur. The campus has procedures that were established and will immediately follow in order to timely write-off deemed uncollectible accounts receivables. We are creating reports in order to perform and review reconciliations of outstanding accounts receivables. Write-off of deemed uncollectible accounts will be completed by December 2006 and remain timely thereafter.

## **RECONCILIATIONS**

Accounts receivable reconciliations required improvement.

Although the campus was able to provide evidence that accounts receivable subsidiary records were reconciled to the general ledger, the reconciliations were neither formalized nor signed and dated by the preparer and a reviewer.

SAM §7800 states that the following sections describe generally the more commonly maintained ledgers, files, and registers that are subsidiary to general ledger accounts. The form and content of these records may vary among agencies except as specifically described in other chapters. These records will be reconciled to the general ledger monthly and include the accounts receivable ledger.

SAM §7901 states that all reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

The associate vice president of business and financial services stated her belief that the supervisor review had been performed, but not documented. In addition, the lack of resources due to extended medical leave kept the campus from reassigning the reconciliation in a timely manner.

Inadequate control over accounts receivable limits the campus' ability to timely detect errors and irregularities and may delay collection efforts.

### **Recommendation 7**

We recommend that the campus prepare formalized reconciliations of accounts receivable that are signed and dated by the preparer and a reviewer.

### **Campus Response**

We concur. The campus is now current with reconciliations which are signed and dated by the preparer and the reviewer.

## **PURCHASING**

Open purchase orders were not always timely investigated and resolved.

Our review of the expediting report by buyer as of March 29, 2006, showed eight open purchase orders dated from December 18, 2003, to June 30, 2005, as follows:

- ▶ Four purchase orders with outstanding encumbrances totaling \$18,798 without any supporting documentation to show efforts made to follow-up on closure or extension of encumbrances.
- ▶ Two purchase orders with negative balances in the amounts of \$11,631 and \$6,686 resulting from payments being erroneously entered twice. The campus had previously detected entry errors and corrected the ones it found; however, these errors had not been detected prior to our review.

SAM §8340 states that as expenditures are recorded on claims, amounts will be posted to reduce the related encumbrance amount. For partial orders, many automated systems will liquidate the encumbrance for the same amount as the expenditure. However, if it is determined that encumbrance amounts are materially misstated, either over or underestimated, adjustments will be recorded to more accurately reflect the expected expenditure. The encumbrance is fully liquidated when the order is fully satisfied. Estimated decreases will be recorded as a minus amount. This will decrease the unliquidated encumbrance amount and increase the unencumbered balance.

SAM §8422.20 states the agency shall develop procedures to follow-up on open purchase documents/contracts to determine whether all goods and services ordered are actually received.

SAM §20050 states that the elements of a satisfactory system of accounting and administrative control shall include, in part, recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures, and an effective system of internal review.

The interim procurement officer stated her belief that the campus discovered certain errors in the encumbrances and reversed them. However, other errors were not detected and reversed prior to the FISMA review.

Failure to investigate and resolve long-outstanding encumbered purchase orders could impair budget analysis and planning and result in less than optimal decision making.

### **Recommendation 8**

We recommend that the campus strengthen monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

### **Campus Response**

We concur. The campus has modified its expedite reports and has documented procedures for our buyers to follow to ensure that open purchase orders are processed or otherwise timely resolved.

## **CASH DISBURSEMENTS**

### **BANK RECONCILIATIONS**

Bank reconciliations were not always timely prepared and complete.

Our review of the three most recent bank reconciliations disclosed that:

- ▶ The most recent bank reconciliation at the time of review in May 2006 was for January 2006.
- ▶ The November and December 2005 reconciliations were not timely prepared. The reconciliations were not prepared until February 17, 2006, which were 48 and 17 days late, respectively.
- ▶ The January 2006 reconciliation was not signed or dated by the reviewer.

SAM §7923 requires departments reconcile their end-of-the-month bank and centralized State Treasury system account balances monthly.

SAM §8060 states that all bank and centralized State Treasury system accounts will be reconciled promptly at the end of each month.

SAM §7908 requires all reconciliations show the preparer's name, reviewer's name, date prepared, and dated reviewed.

The associate vice president of business and financial services stated that the campus did not hire temporary staff or allocate the function to another staff member when the employee normally responsible for bank reconciliations took family medical leave.

Untimely and incomplete bank reconciliations limit the campus' ability to detect errors and irregularities, increase the likelihood of loss of state funds, and compromise accountability.

**Recommendation 9**

We recommend that the campus strengthen procedures to ensure that bank reconciliations are prepared in a timely and complete manner.

**Campus Response**

We concur. The campus is now current with its monthly bank reconciliations and will ensure that they are continuously prepared in a timely and complete manner.

**LONG-OUTSTANDING CHECKS**

Long-outstanding checks were not processed in a timely manner.

We reviewed the most recent list of outstanding checks for March 2006 and noted that there were 32 checks older than one year totaling \$21,415 dated between November 2004 and January 2005.

SAM §8042 states that checks have a one-year period of negotiability, unless specific provisions of law require cancellation in a different period of time. Further, agencies will send a stop payment request form to the State Treasurer's Office for all uncashed checks timed to arrive at least one week prior to the end of the one-year period of negotiability.

The vice president of administration and business affairs stated his belief that tasks were not completed timely during the absence of key staff due to lack of resources and failure to delegate the function in a timely manner.

Failure to process long-outstanding checks increases the risk of misappropriation and requires additional effort to review outstanding checks during the reconciliation process.

**Recommendation 10**

We recommend that the campus promptly process the noted long-outstanding checks and strengthen procedures to ensure that future long-outstanding checks are processed in a timely manner.

**Campus Response**

We concur. The campus has processed the noted long-outstanding checks and strengthened our procedures to ensure that future long-outstanding checks are processed timely.

## FIXED ASSETS

Administration of fixed assets did not ensure that property was properly accounted for, identified, and recorded.

We found that:

- ▶ Although the campus was currently conducting a campuswide physical inventory, a count of all property had not been performed in the past five years.
- ▶ The most recent property reconciliation was for June 2005.
- ▶ Four of eight capitalized property items reviewed had not been tagged or entered by tag number into the property sub-ledger. Acquisition dates ranged from June 2005 to February 2006. Additionally, the campus was unable to provide documentation showing when the eight items were recorded into the general ledger.
- ▶ Three of the eight capitalized property items reviewed had not been accurately recorded into the property sub-ledger. In two instances, additional costs totaling less than \$10 each were excluded from the costs entered in the property sub-ledger. In one additional instance, the cost reflected in the sub-ledger excluded \$379 in tax.
- ▶ Eleven of 17 items of sensitive equipment valued at less than \$5,000 reviewed had either not been tagged, been tagged, but not entered into the property system, and/or were not on campus at the time of review. These items included ten laptop computers that had already been distributed to users who took them off-campus. In addition, an equipment custody receipt had not been completed for one. Acquisition dates ranged from June 2005 to February 2006.
- ▶ In one case, the item that had been selected from the property sub-ledger could not be located in the general ledger and therefore, was not verified.

EO 649, *Safeguarding State Property*, dated February 15, 1996, delegates authority to each campus president to establish and maintain a system of internal controls to safeguard state property.

SAM §8652 requires a physical count of all property and reconciliation of the count with accounting records at least once every three years.

SAM §7924 requires that agencies reconcile property at least quarterly or monthly, depending upon the volume of property transactions. Agencies will reconcile the acquisitions and dispositions of capitalized property with the amounts recorded into the property ledger.

SAM §8650 indicates that the property records for each property acquisition include date acquired, property description, property identification number, cost or other basis of valuation, owner fund, and rate of depreciation, if applicable. Property records shall include both capitalized and non-capitalized property.

SAM §8651 indicates that all state property will be tagged after acquisition.

CSUEB *Equipment Loan* procedures states that the removal of any item of equipment from its normal assigned location on campus must be covered by a signed custody receipt or an equipment transfer form.

SAM §20050 states, in part, that the elements of satisfactory system of internal accounting and administrative controls include a system of recordkeeping procedures adequate to provide effective accounting control over assets.

The associate vice president of business and financial services stated her belief that the problems identified with fixed assets were due to budget cuts and the inability for the property clerk position to be filled by a full-time person for the past few years.

Insufficient control over property increases the risk of misstated property records and theft, loss, or unauthorized use of state property.

### **Recommendation 11**

We recommend that the campus:

- a. Promptly complete its campuswide physical inventory and establish procedures to ensure that a physical count of all property, including reconciliation with accounting records, is performed at least once every three years from the date of completion of the current physical inventory.
- b. Prepare property reconciliations on at least a quarterly basis.
- c. Establish procedures to ensure that acquisitions are promptly tagged and timely and accurately recorded into property records and the general ledger.
- d. Enforce the use of equipment custody receipts.

### **Campus Response**

We concur. The campus will:

- a. Complete its campuswide physical inventory and establish procedures to ensure that a physical count of all property, including reconciliation with accounting records, is performed at least once every three years and even more frequent for some areas of the campus. We anticipate completion of the current inventory by January 2007.

- b. Establish procedures and prepare property reconciliations on at least a quarterly basis. We anticipate completion by January 2007.
- c. Establish and document procedures to ensure that acquisitions are promptly tagged and timely and accurately recorded into property records and the general ledger. We anticipate completion by January 2007.
- d. Enforce its department to use the equipment custody receipts. We anticipate completion by January 2007.

## **FISCAL INFORMATION TECHNOLOGY**

### **NETWORK SECURITY**

Network security scanning and monitoring tools were not used, and the campus did not have a centralized mechanism to ensure desktop software patch management or virus updates.

SAM §4842.2 states that appropriate risk management procedures should be implemented to safeguard the integrity of data files, which includes effective security of computing systems. Effective security of network and computing systems is considered to include an appropriate method for ensuring that security patches are continually applied to all servers and desktop computers.

The executive director of information technology/chief information security coordinator stated that the campus was considering acquisition of network monitoring and desktop patch management software, but had not allocated sufficient monetary resources to implement such a solution.

Failure to effectively monitor and control network traffic, scan for vulnerability, and provide a more reliable process of desktop software patch management and virus updates increases the risk of fraudulent, unauthorized, or malicious activities and compromises system integrity.

#### **Recommendation 12**

We recommend that the campus perform a comprehensive review of the risks and mitigating responses to:

- a. The process for providing network vulnerability assessment and ensure implementation of appropriate network security scanning and monitoring tools.
- b. Desktop software patch management and virus updates and ensure implementation and compliance.

### **Campus Response**

We concur. The campus will:

- a. Conduct a limited vulnerability assessment of selected servers on the network. We have network scanning and monitoring tools. We will develop a strategy for using the scanning and monitoring tools on a regular basis. The strategy will also include an escalation process for dealing with high-risk vulnerabilities. We anticipate completion by February 2007.
- b. Deploy a new desktop infrastructure project that will include patch management strategy. It will take some time to reach every desktop, and a strategic plan will be developed that ensures we reach every desktop. We anticipate completion by February 2007.

### **ACCESS REMOVAL**

The existing work order system used for notification of employee terminations and transfers was not being updated, and accordingly did not provide assurance of timely removal of system access.

SAM §4842.2 states that appropriate risk management procedures should be implemented to provide termination practices that ensure that information assets are not accessible to former employees. Effective termination practices include removal of system access upon employee termination or transfer.

The executive director of information technology/chief information security coordinator stated that the system access removal process had been enhanced to include notification of several different groups, but that such a wide distribution had adversely impacted the process and resulted in work orders not being properly closed.

Inadequate control over system access removal increases the risk of unauthorized and undetected access to campus systems and confidential data.

### **Recommendation 13**

We recommend that the campus reexamine the process for notifying security administrators to ensure that only persons responsible for administering information security are notified of employee terminations and transfers and that each person make an entry in the work order system so that every work ticket is closed in a timely manner.

### **Campus Response**

We concur. The campus will be meeting to develop a strategy for notifying security administrators to ensure that only persons responsible for administering information security are notified of employee terminations and transfers and that each person make an entry in the work order system so that every work ticket is closed in a timely manner. We anticipate completion by November 2006.

## **DISASTER RECOVERY PLAN**

The campus disaster recovery plan had not been updated to reflect the campus dependence on its centralized authentication and data warehouse systems.

SAM §4843.1 requires each state agency to establish and maintain both an operational recovery plan to protect its information assets in the event of a disaster or serious disruption to its operations and a plan to resume operation following a disaster affecting those applications.

The California State University *Information Security Policy*, dated August 2002, states that campuses must have plans and procedures for the protection of data against natural, accidental, and intentional disasters, which include disaster recovery planning.

The director of server and network operations stated that the campus had recently completed making significant changes to its information technology environment and an update of the disaster plan will be delayed until changes to the environment were complete.

Without a current information technology disaster recovery plan that addresses all significant components required for recovery, the campus may not be able to restore computer operations within a reasonable time frame.

### **Recommendation 14**

We recommend that the campus update its disaster recovery plan to reflect the existing environment.

### **Campus Response**

We concur. The campus will be updating our existing disaster recovery plan to include the authentication (IMS aka "NetID") and data warehouse systems. We anticipate completion by November 2006.

## **PEOPLESOFT ACCESS PRIVILEGES**

Access roles and privileges to the PeopleSoft Financial system were not effectively assigned to prevent unauthorized access and data modification.

We found that:

- ▶ Unused roles had been assigned to active user accounts.
- ▶ Some individuals had been given privileges to the purchasing, general ledger, and accounts payable modules, which were not compatible with their assigned duties.
- ▶ Test accounts were present in the production environment.

SAM §8080.1 states that each state agency to establish and maintain an adequate system of internal control, and that a key element in a system of internal control is separation of duties. Further, “no one person shall perform more than one of 11 types of duties, including maintaining records file and operating mechanized equipment, initiating disbursement documents, approving disbursement documents, and inputting disbursement information.”

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

The executive director of information technology/chief information security coordinator stated that the system had been recently implemented, and the privileges that were set up for pre-production had not yet been reevaluated.

Failure to properly limit access to only those who need to perform job duties increases the risk of fraudulent or unauthorized activities.

#### **Recommendation 15**

We recommend that the campus review access privileges and take appropriate action to segregate duties and restrict update responsibilities. Specifically, the campus should remove unused roles from production accounts, individual privileges to multiple application modules incompatible with their assigned duties, and test accounts from the production environment.

#### **Campus Response**

We concur. The campus has begun work on cleaning up accounts in the Financial system. We will be running security reports against the Financial system to see if we still have problems. We anticipate completion by November 2006.

## **INVESTMENTS**

Investment reconciliations were not timely prepared and complete.

During our review of reconciliations in May 2006, we noted that the most recent reconciliation of investment records to the general ledger was for January 2006. In addition, the reconciliation lacked an approval date.

SAM §7800 requires that subsidiary records be reconciled to the general ledger monthly.

SAM §7901 states that all reconciliations will be prepared monthly within 30 days of the preceding month, with the exception of property reconciliations.

SAM §7908 states all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

The assistant controller stated that investment reconciliations were not timely prepared during the month in question because the campus allocated resources to ensure that other reconciliations they perceived to be of higher priority were completed instead. He added that the lack of an approval date was due to oversight.

Failure to prepare investment reconciliations in a timely and complete manner limits the campus' ability to detect errors and irregularities and compromises accountability.

**Recommendation 16**

We recommend that the campus strengthen procedures to ensure that investment reconciliations are prepared in a timely and complete manner.

**Campus Response**

We concur. The campus has reiterated to staff the importance of timely responses and has strengthened procedures to ensure that investment reconciliations are prepared in a timely and complete manner. We have completed our investment reconciliations to date.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Mohammad Qayoumi	President
Norma S. Rees	President (At time of review)
John Abbey	Assistant Controller
Yvonne Brandenburg	Accounts Receivable Manager
Elaine Collins	Buyer
Matt Collins	Analyst/Programmer
Frank Correia	Director, Server and Network Operations
Jane Cross	Payroll Manager
Thomas Dixon	Director, Information Technology
Hoa Dong	Accountant
John Gonzalez	Shipping and Receiving Manager
Chiang Jandro	Controller
Charlene Keilough	Cashiering Supervisor
Aaron Ledesma	Accounting Technician II, Main Cashier
Sandy Lee	General Accounting Manager
Lana Lewis	Supervisor, Accounts Payable
Nyassa Love	Associate Vice President, Business and Financial Services
Socorro Medrano	Accountant
Regina Metoyer	Director, Housing and Residential Life
Richard Metz	Vice President, Administration and Business Affairs
Janice Ornellas	Administrative Support Assistant, Enrollment Services
Flora Salas	Administrative Analyst, Student Health Services
Madeline Scott	Interim Procurement Officer
Ed Serafino	Property Clerk
Eileen Tarrell	Administrative Support
Eloise Thomas	Accounts Receivable Collections
Jayne Truong	Senior Accountant
Mike Walker	Administrative Analyst
Cheryl Washington	Executive Director, Information Technology/ Chief Information Security Coordinator
Seun Wright	Network Security Analyst

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

### **B. INTERNAL CONTROL DEFINITION**

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

#### **1. Internal Accounting Controls**

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

#### **2. Operational Controls**

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **C. INTERNAL CONTROL OBJECTIVES**

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

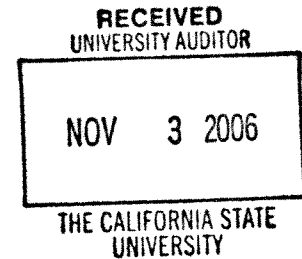
There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.



## Office of the Vice President, Administration &amp; Business Affairs

CALIFORNIA STATE UNIVERSITY, EAST BAY  
 25800 Carlos Bee Boulevard, Hayward, CA 94542-3002  
 Phone: 510.885.3803 • Fax: 510.885.4745 • richard.metz@csueastbay.edu

October 28, 2006



Mr. Larry Mandel  
 University Auditor  
 C/o Chancellor's office  
 401 Golden Shore  
 Long Beach, CA 90802

Dear Larry,

Enclosed with this cover letter is the CSUEB response to the recent FISMA Audit findings. I hope you will find them to be acceptable and timely to the concerns outlined in each area.

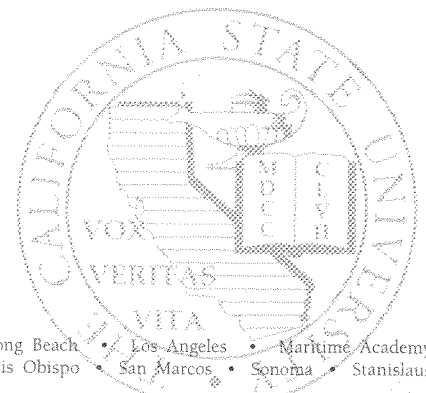
Under separate cover, we are also sending you our immediate efforts to comply with a number of the comments involved. We trust they will be acceptable and look forward to your reply to their presentations.

If I may be of support in any way, please do not hesitate to call on me.

Sincerely,

Richard S. Metz  
 Vice President for Administration and Business Affairs

c: Ms. Nyassa Love  
 Ms. Janice Mirza  
 Dr. Mohammad H. Qayoumi



**FISMA****CALIFORNIA STATE UNIVERSITY,  
EAST BAY****Report Number 06-03  
September 20, 2006****CASH RECEIPTS****MAIN AND SATELLITE CASHIERING****Recommendation 1**

We recommend that the campus:

- a. Prepare documented and timely reconciliations of student and employee parking permits issued to revenue recorded in the general ledger, including verification of decals issued and decals returned.
- b. Analyze the variances between cash collected from parking decal dispensers and the amounts shown on transcripts generated from the dispensers and determine whether the cost/benefit of correcting any variances.
- c. Develop reporting capabilities to generate cash receipt totals from all satellite locations and monitor their financial position.
- d. Ensure that all checks received by SHS medical field personnel are restrictively endorsed on the day of receipt.
- e. Ensure that all currency and checks received by SHS medical field personnel are adequately safeguarded in a secured storage facility upon receipt from customers and prior to deposit.

**Campus Response**

We concur. The campus will:

- a. Prepare documented reconciliations of its employees and students parking permits issued to revenue recorded in the general ledger, including verification of decals issued and decal returned, on a monthly basis. We are now current in this process.
- b. Develop reconciliation and work with UPD staff to monitor and resolve variances. We are currently working to further define our process and anticipate completion by December 2006.
- c. Enhance their reporting capabilities to generate cash receipt totals from all satellite locations and monitor their financial positions. We anticipate completion by December 2006.

- d. Has provided SHS medical field personnel the appropriate endorsement stamp and will reiterate to staff that all check endorsement must be on the day of receipt. We anticipate completion by November 2006.
- e. Will reiterate to staff at SHS facilities the policy to adequately safeguard all currency and checks received in a secured storage facility upon receipt from customers and prior to deposit. We anticipate completion by November 2006.

## **FEE RECONCILIATIONS**

### **Recommendation 2**

We recommend that the campus promptly complete application and state university fee reconciliations and establish procedures to ensure that future reconciliations are timely prepared.

### **Campus Response**

We concur. The campus has completed the application and state university fees reconciliations and have established procedures to ensure that future reconciliations are timely prepared.

## **UNCLEARED COLLECTIONS**

### **Recommendation 3**

We recommend that the campus prepare formalized reconciliations of uncleared collections on a monthly basis that are signed and dated by the preparer and a reviewer and strengthen procedures to timely investigate and resolve uncleared collection items.

### **Campus Response**

We concur. The campus is modifying reports in order to perform and review reconciliations of uncleared collections on a monthly basis. Reconciliations will include analysis and resolutions to uncleared collection items and will have the signature and date of the preparer and reviewer. We anticipate completion by January 2007.

## **ACCOUNTS RECEIVABLE**

### **BILLINGS FOR SERVICE**

### **Recommendation 4**

We recommend that the campus strengthen procedures to ensure that billings for services rendered are timely received from service departments and timely invoiced to users.

**Campus Response**

We concur. The campus has resolved all issues resulting from the implementation of the AR/Billings module of PeopleSoft which was the cause of this finding. We are now current with entering bills and invoicing is up to date.

**COLLECTIONS****Recommendation 5**

We recommend that the campus:

- a. Strengthen procedures to ensure that documented collection efforts are promptly pursued for third-party and student accounts receivables, and holds are placed on all delinquent student accounts.
- b. Consider restructuring the collection process to provide better oversight and include other staff to avoid instances whereby collection documentation or information is held solely by one person.
- c. Analyze all third-party receivable balances to determine their validity and establish and implement controls to ensure that invoices, payments, and adjustments are properly processed and recorded.
- d. Explore the feasibility of reformatting the student receivables aging report to provide better aging data for receivables greater than 90 days old.
- e. Document and implement management oversight and verification of various portions of the collection process.

**Campus Response**

We concur. The campus will:

- a. Develop procedures for account receivables staff member to document collection efforts for third-party vendors in PeopleSoft. University Controller will establish procedures for collection on student accounts receivables that includes placing holds on delinquent student accounts. We anticipated completion by December 2006.
- b. Restructure the collection process to provide better oversight and include other staff to avoid instances whereby solely one person holds collection documentation and information. We anticipated completion by December 2006.
- c. Analyze all third party receivables balances to determine their validity. We will establish and implement controls to ensure that invoices, payments, and adjustments are properly processed and recorded and anticipate completion by December 2006.
- d. Modify current student receivables aging report to provide better aging data for receivable greater than 90 days old. Programming efforts have already begun and we anticipate completion by December 2006.

- e. Document a process that includes using a collection agency for management oversight and verification of various portions of the collection process. The Acting Accounts Receivables Manager will implement the process and is anticipating completion by December 2006.

## **WRITE-OFFS**

### **Recommendation 6**

We recommend that the campus establish procedures to periodically review long-outstanding accounts receivable for write-off, including specific guidelines, approvals and time frames and ensure that all accounts receivable deemed uncollectible are written-off in a timely manner.

### **Campus Response**

We concur. The campus has procedures that were established and will immediately follow in order to timely write off deemed uncollectible accounts receivables. We are creating reports in order to perform and review reconciliations of outstanding accounts receivables. Write-off of deemed uncollectible accounts will completed by December 2006 and remain timely thereafter.

## **RECONCILIATIONS**

### **Recommendation 7**

We recommend that the campus prepare formalized reconciliations of accounts receivable that are signed and dated by the preparer and a reviewer.

### **Campus Response**

We concur. The campus is now current with reconciliations which are signed and dated by the preparer and the reviewer.

## **PURCHASING**

### **Recommendation 8**

We recommend that the campus strengthen monitoring procedures to ensure that open purchase orders are processed or otherwise timely resolved.

### **Campus Response**

We concur. The campus has modified it's expedite reports and have documented procedures for our buyers to follow to ensure that open purchase orders are processed or otherwise timely resolved.

## CASH DISBURSEMENTS

### BANK RECONCILIATIONS

#### Recommendation 9

We recommend that the campus strengthen procedures to ensure that bank reconciliations are prepared in a timely and complete manner.

#### Campus Response

We concur. The campus is now current with its monthly bank reconciliations and will ensure that they are continuously prepared in a timely and completed manner.

### LONG-OUTSTANDING CHECKS

#### Recommendation 10

We recommend that the campus promptly process the noted long-outstanding checks and strengthen procedures to ensure that future long-outstanding checks are processed in a timely manner.

#### Campus Response

We concur. The campus has processed the noted long-outstanding checks and strengthened our procedures to ensure that future long-outstanding checks are processed timely.

## FIXED ASSETS

#### Recommendation 11

We recommend that the campus:

- a. Promptly complete its campuswide physical inventory and establish procedures to ensure that a physical count of all property, including reconciliation with accounting records, is performed at least once every three years from the date of completion of the current physical inventory.
- b. Prepare property reconciliations on at least a quarterly basis.
- c. Establish procedures to ensure that acquisitions are promptly tagged and timely and accurately recorded into property records and the general ledger.
- d. Enforce the use of equipment custody receipts.

**Campus Response**

We concur. The campus will:

- a. Complete its campuswide physical inventory and establish procedures to ensure that a physical count of all property, including reconciliation with accounting records, is performed at least once every three years and even more frequent for some areas of the campus. We anticipate completion of the current inventory by January 2007.
- b. Establish procedures and prepare property reconciliations on at least a quarterly basis. We anticipate completion by January 2007.
- c. Establish and document procedures to ensure that acquisitions are promptly tagged and timely and accurately recorded into property records and the general ledger. Anticipated completion January 2007.
- d. Enforce its department to use the equipment custody receipts. We anticipate completion by January 2007.

**FISCAL INFORMATION TECHNOLOGY****NETWORK SECURITY****Recommendation 12**

We recommend that the campus perform a comprehensive review of the risks and mitigating responses to:

- a. The process for providing network vulnerability assessment and ensure implementation of appropriate network security scanning and monitoring tools.
- b. Desktop software patch management and virus updates and ensure implementation and compliance.

**Campus Response**

We concur. The campus will

- a. Has conducted a limited vulnerability assessment of selected servers on the network. We have network scanning and monitoring tools. We will develop a strategy for using the scanning and monitoring tools on a regular basis. The strategy will also include an escalation process for dealing with high risk vulnerabilities. Anticipated completion, February 2007
- b. Deploy a new desktop infrastructure project that will include patch management strategy. It will take sometime to reach every desktop and a strategic plan will be developed that ensures we reach every desktop. Anticipated completion, February 2007

## **ACCESS REMOVAL**

### **Recommendation 13**

We recommend that the campus reexamine the process for notifying security administrators to ensure that only persons responsible for administering information security are notified of employee terminations and transfers and that each person make an entry in the work order system so that every work ticket is closed in a timely manner.

### **Campus Response**

We concur. The campus will be meeting to develop a strategy for notifying security administrators to ensure that only persons responsible for administering information security are notified of employee terminations and transfers and that each person make an entry in the work order system so that every work ticket is closed in a timely manner. Anticipated completion, November 2006.

## **DISASTER RECOVERY PLAN**

### **Recommendation 14**

We recommend that the campus update its disaster recovery plan to reflect the existing environment.

### **Campus Response**

We concur. The campus will be updating our existing disaster recovery plan to include the authentication (IMS aka "NetID") and data warehouse systems. Anticipated completion, November 2006.

## **PEOPLESOFT ACCESS PRIVILEGES**

### **Recommendation 15**

We recommend that the campus review access privileges and take appropriate action to segregate duties and restrict update responsibilities. Specifically, the campus should remove unused roles from production accounts, individual privileges to multiple application modules incompatible with their assigned duties, and test accounts from the production environment.

### **Campus Response**

We concur. The campus has begun work on cleaning up accounts in the FS system. We will be running security reports against the FS system to see if we still have problems. Anticipated completion, November 2006.

## INVESTMENTS

### **Recommendation 16**

We recommend that the campus strengthen procedures to ensure that investment reconciliations are prepared in a timely and complete manner.

### **Campus Response**

We concur. The campus has reiterated to staff the importance of timely responses and has strengthened procedures to ensure that investment reconciliations are prepared in a timely and complete manner. We have completed our investment reconciliations to date.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 15, 2006

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

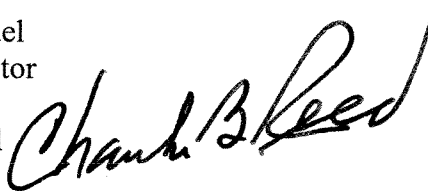
**MEMORANDUM**

EAST BAY

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 06-03 on *FISMA*,  
California State University, East Bay

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of November 15, 2006, I accept the response as submitted with the draft final report on *FISMA*, California State University, East Bay.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. Richard S. Metz, Vice President, Administration and Business Affairs  
Dr. Mohammad Qayoumi, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS